

The complaint

Mr L says Provident Personal Credit Limited (trading as Satsuma) lent to him irresponsibly.

What happened

Mr L had six loans with Satsuma. I've summarised some information Satsuma provided about the loans below.

Loan	Date Taken	Date Repaid	Instalment	
			s	Amount
1	14/08/2017	23/12/2017	4	£100
2	07/10/2017	03/04/2018	6	£100
3	19/11/2018	04/04/2019	6	£200
4	07/01/2019	06/04/2019	6	£1,000
5	14/04/2019	<i>Outstanding</i>	12	£360
6	24/07/2019	<i>Outstanding</i>	12	£1,400

Our adjudicator considered the complaint and thought it should be upheld in part. He didn't think Satsuma was right to have agreed to lend loans 5 or 6. Satsuma didn't respond to the adjudicator and Mr L asked that his complaint be reviewed by an ombudsman - so the complaint was passed to me to decide.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. We've set out our general approach to complaints about short-term lending - including all of the relevant rules, guidance and good industry practice - on our website.

Satsuma needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mr L could repay the loans in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts and the consumer's income and expenditure. With this in mind, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate.

But certain factors might point to the fact that Satsuma should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors include:

- the *lower* a consumer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);

- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the *greater* the number and frequency of loans, and the longer the period of time during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

I think that it is important for me to start by saying that Satsuma was required to establish whether Mr L could sustainably repay his loans – not just whether the loan payments were affordable on a strict pounds and pence calculation.

Of course the loan payments being affordable on this basis might be an indication a consumer could sustainably make their repayments. But it doesn't automatically follow this is the case. This is because the relevant regulations define sustainable as being without undue difficulties and in particular the customer should be able to make repayments on time, while meeting other reasonable commitments; as well as without having to borrow to meet the repayments. And it follows that a lender should realise, or it ought fairly and reasonably realise, that a borrower won't be able to make their repayments sustainably if they're unlikely to be able to make their repayments without borrowing further.

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Mr L's complaint.

For the first four loans Satsuma agreed for Mr L, I think its checks were proportionate. Loans 1 to 3 were relatively small in comparison to Mr L's declared income and the expenditure information Mr L provided suggested they were all affordable. In these earlier stages of the lending relationship, I don't think it would've been unreasonable for Satsuma to rely more heavily on Mr L's declarations. I have seen that Satsuma made significant adjustments to Mr L's expenditure for loans 1 to 3 following its credit check - but again I think this was a proportionate and fair response at this time.

I think Satsuma's checks for loan 4 were proportionate too. Although the loan was for a lot more than the previous loans, the repayments still seemed to be affordable based on Mr L's declared income and expenditure and I still think it was reasonable at this stage for Satsuma to accept this information from Mr L without asking him to provide further evidence.

But for loans 5 and 6, I do not think Satsuma's checks were proportionate. I also think, from the checks Satsuma actually carried out, it ought to have realised Mr L's indebtedness was likely increasing unsustainably.

I've seen that Mr L had around five other short-term loans outstanding when Mr L asked for loan 5 and a similar number when he asked for loan 6. I've also seen that as a result of the credit checks Satsuma carried out, it increased Mr L's declared credit commitments from nothing to £1,050 per month. It made a similar adjustment for loan 6, increasing Mr L's declared credit commitments from nothing to £1,100 per month.

So it seems Satsuma was aware that Mr L had a significant amount of other debt to maintain, which he didn't tell Satsuma about. In these circumstances, I don't think it was enough for Satsuma to make the adjustments it made to Mr L's expenditure. I think it ought to have gone further and asked Mr L for some proof of income and expenditure, or otherwise carried out a more detailed review of his financial circumstances.

Had Satsuma done this, I think it would have seen the details of Mr L's other short-term loans and his other credit commitments and living expenses. And from this, I think it would've concluded that Mr L's indebtedness had increased to unsustainable levels and it wouldn't have approved loans 5 or 6.

I'm therefore upholding Mr L's complaint in respect of loans 5 and 6.

Putting things right

Satsuma shouldn't have given Mr L loans 5 or 6.

If Satsuma has sold the outstanding debts it should buy these back if it is able to do so and then take the following steps. If it is not able to buy the debts back then it should liaise with the new debt owner to achieve the results outlined below.

A) Satsuma should add together the total of the repayments made by Mr L towards interest, fees and charges on all upheld loans without an outstanding balance, not including anything it has already refunded.

B) Satsuma should calculate 8% simple interest* on the individual payments made by Mr L which were considered as part of "A", calculated from the date Mr L originally made the payments, to the date the complaint is settled.

C) Satsuma should remove all interest, fees and charges from the balance on any upheld outstanding loans, and treat any repayments made by Mr L as though they had been repayments of the principal on all outstanding loans. If this results in Mr L having made overpayments then Satsuma should refund these overpayments with 8% simple interest* calculated on the overpayments, from the date the overpayments would have arisen, to the date the complaint is settled. Satsuma should then refund the amounts calculated in "A" and "B" and move to step "E".

D) If there is still an outstanding balance then the amounts calculated in "A" and "B" should be used to repay any balance remaining on outstanding loans. If this results in a surplus then the surplus should be paid to Mr L. However if there is still an outstanding balance then Satsuma should try to agree an affordable repayment plan with Mr L. Satsuma shouldn't pursue outstanding balances made up of principal it has already written-off.

E) Satsuma should remove any adverse information recorded on Mr L's credit file in relation to loans 5 and 6.

*HM Revenue & Customs requires Satsuma to deduct tax from this interest. It should give Mr L a certificate showing how much tax has been deducted, if he asks for one.

My final decision

I uphold Mr L's complaint in part. Provident Personal Credit Limited must put things right by taking the steps set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 30 April 2020.

Matthew Bradford
Ombudsman